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Valeant is unlikely to have long term vision for Allergan's eye assets

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If Valeant raising its bid for Allergan was an unsurprising move, the addition of a huge contingent value right (CVR) – worth up to $25 per share – for the DARPin programme was somewhat leftfield. Valeant, historically more an acquirer and marketer than an R&D powerhouse, has also offered to fund the project's development to the tune of $400m.

The DARPin, coded AGN 150998, is in phase II for wet AMD, an area that has seen many effective drugs debut and which remains a hot area of R&D. As such, Valeant will have to back not only '998 but follow-ons if it is serious about carving a niche this space. That kind of R&D investment would be quite a strategic departure so it is not surprising that Valeant continues to stress its willingness to break itself up in the future as it continues to pursue merger-fuelled growth – assuming Allergan eventually succumbs and the asset proves its worth, its sale is a likely outcome.

Another $30

The new offer values Allergan just shy of $50bn, and would net its investors cash and stock of around $166 per share, with the DARPin CVR, contingent on the product meeting sales targets, on top. The original $153-a-share offer was worth $47bn in total (*Valeant's move into shareholder activism, April 22, 2014*). Yesterday's update increased the cash component by $10 per share to $58.30.

Allergan said it would take the offer under consideration – but that is what it said the first time before issuing its rejection. It is clear from the stock reactions of both companies that this new bid is unlikely to succeed, and the gloves-off defence presentation published by the Botox maker this week shows that this fight will remain acrimonious and bitter until the end.

That said, everyone has a price, and analysts have suggested that an even bigger proportion of cash and an increase in the offer to between $180 and $200 per share ought to get the deal done.

And it is clear that Valeant is serious. The $1.4bn divestiture of some consumer skincare products to Nestle yesterday, aimed at guarding against antitrust problems with the Allergan deal, signals its determination.

As good as Eylea?

But it is Valeant's highlighting of the DARPin programme that is the remarkable facet of the new move. The CVR was based on the $20bn Allergan has predicted for potential cumulative 10-year DARPin sales, according to Bernstein analysts, and therefore Valeant is proposing to return 40% of future sales to CVR holders.

The $20bn figure is of course still highly speculative. *EvaluatePharma's* consensus forecasts predict AGN 150998 to sell $32m when it launches in 2018 and just $111m in 2020, figures that remain heavily risk adjusted.

Regeneron's Eylea is forecast to lead the wet AMD space in 2020, by which time it will have racked up cumulative 10-year AMD sales of $24bn. Allergan seems to think the DARPin can do nearly as well, but this is far from proven and the space remains highly competitive (*Novartis pays up to shut out eye competition, May 20, 2014*).

Allergan licensed the DARPin from Molecular Partners in 2012 (*EP Vantage Interview – Molecular Partners maximises monopoly on DARPins, August 31, 2012*). The USP of the molecule is its long half-life. Eylea has to be injected into the eye every month at first and then every two months. Preliminary data from phase II trials of '998 suggest a dosing interval of up to three months, Allergan has said in the past.

Further phase II studies comparing two high doses of '998 with Lucentis are ongoing, but with questions over product differentiation Allergan has said that additional mid-stage testing would be necessary before it could move forward into pivotal trials.

Carving off limbs

Valeant clearly understands that ‘998 requires a lot of input; it has promised to retain the Allergan employees responsible for the project’s development as well as throwing the best part of half a billion dollars at it. But it also understands that its value is far from assured.

Promising future payments could well make any sale of the DARPin assets more complicated, but there will be interested buyers out there if subsequent studies are successful. And Valeant is clearly prepared to swallow the implications of failure to get this deal done.

Because ultimately Valeant does not want Allergan for its R&D prowess: it wants it for its cash flows. Adding a CVR to the bid costs nothing up front and the Nestle deal shows it is happy to carve off limbs for the good of the whole. Which is what will ultimately happen if the DARPins live up to Allergan investors' expectations.

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